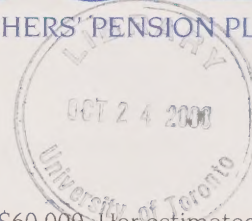




EXCHANGE

A NEWSLETTER FOR MEMBERS OF THE ONTARIO TEACHERS' PENSION PLAN

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85-factor window confirmed

It's official. We received the text of the plan changes that were announced in April. We can confirm the following details:

ELIGIBILITY FOR UNREDUCED PENSIONS

- You're eligible for an unreduced pension with the 85 factor—when your age and your qualifying years equal 85—even if you're not yet 55;
- The 85-factor window is available from June 1, 1998 to December 31, 2002, and may be continued after that time.
- The 85-factor rules apply if you quit teaching, or end an employer-approved leave of absence, during the window.

REDUCED PENSIONS FROM 85

Reduced pensions will be calculated from the 85 factor, rather than 90 during the window.

Immediate reduced pensions:

We reduce your pension by 2.5% for each point you are away from the 85 factor (or 5% for each year you're under age 65, whichever is less).

Example:

Ruth has her 83 factor (she's 55 with 28 qualifying years) and is two points from retiring with an 85 factor pension. Ruth is much closer to her 85 factor than age 65. She has 27 years of credit and her average best-five salary is

\$60,000. Her estimated reduced pension is \$30,780.

Estimating Ruth's reduced pension:

Step 1: $2\% \times 27 \text{ years of credit} \times \$60,000 = \$32,400$

Step 2: This is reduced by 2.5% for every point Ruth is away from her 85 factor, in this case, $2 = 5\%$.

Step 3: $\$32,400 \times 5\% = \$1,620$

Step 4: $\$32,400 - \$1,620 = \$30,780$

Deferred pensions:

If you do not begin collecting your pension immediately after you quit teaching, the reduction to your pension is greater. If you wait for a deferred pension, your pension will be reduced by 5% per point from the 85 factor (or 5% for each year you're under age 65, whichever is less.) Unless you quit teaching during the window, your pension is reduced by 5% per point from the 90 factor. ☀

To be eligible for an immediate reduced pension under the 85-factor rules, you must:



- be 55 years of age or older;
- Quit teaching, or end an employer-approved leave of absence, during the window;
- Quit teaching, retire and start your pension immediately.

INSIDE THIS ISSUE

- 3 How we invest—**Merchant Banking**
- 4 **Contributing to your pension while on leave**
- 5 **Laid off?**



HAVE *Your* SAY...

NO MILLENNIUM BUG HERE

"Has the Teachers' pension plan prepared for the year 2000 computer problem?"

P.C., South River

Most of the information systems used by the Teachers' pension plan are ready for the next century. We have, for instance, been providing teachers with pension estimates for beyond the year 2000 for some time.

We are dependent on several external information systems for services such as data collection from school boards and investment market data. We are working with our suppliers of these and other services to ensure the systems will work well after the year 2000. We are doing final tests on our systems this year to ensure we're ready.

The so-called millennium bug affects many older computer programs that use only two digits rather than four to denote dates. This leaves the computer program confused by the year 2000, which it reads as "00." Without correction, affected systems will misinterpret the "00" figure as 1900 or a random date, causing them to malfunction.

COMMUTED VALUE

"Why didn't anyone ever tell me I could transfer the commuted value of my pension?"

A.H. North Bay

We explain the commuted value (CV) transfer option in the booklet *Weighing Your Options*. Last summer, teachers over age 50 were sent the four-page article, "Commuted Value: Is it best to take your money?" by former teacher and financial planner Jim Murdock.

More recently, the CV transfer option was discussed in the previous two issues of *Exchange* (Autumn 1997, Volume 20; April 1998, Volume 21).

The commuted value of a pension is the lump-sum payment you would need today to replace your future pension. To take a commuted value transfer you must quit teaching before you're eligible for an unreduced pension and the month before you turn 55, and transfer the amount to a locked-in RRSP. You can't access your money until age 55 and you assume all the investment risks.

ASIAN FLU

"How did the drop in the Asian markets hurt the pension plan?"

J.N., Pickering

The Teachers' pension plan did not catch the financial equivalent of the Asian flu that began last fall with the currency crisis and collapse of the region's stock markets. We invest less than 1% of the plan's assets in emerging markets and had very little invested in countries suffering most from the recent drop in market value, namely Indonesia, Malaysia and South Korea. ■

NO SUCH THING AS A "FULL PENSION"

A retirement pension is either unreduced (when you have the 85 factor or 35 years of credit or 65 years of age) or reduced. Prior to 1992, teachers couldn't accrue more than 35 years of credit and a full pension referred to a pension that was 70% (2% x 35 years of credit) of a teacher's average salary. ■

DUDLEY DOOMSAYER



“ Unless the two-year rule is changed, teachers retiring in June with the 85 factor can't increase their survivor's pension to 75%.

What a rip-off. ”

CONSIDER THIS:

If you want to increase your survivor's pension to 65, 70 or 75% of your teachers' pension but you missed the two-year deadline to apply, you can still be approved if you pass a medical examination.

If you do nothing, your spouse automatically receives 60% of your teachers' pension.

Another option is to decrease your survivor's pension to 50%. You and your spouse must sign a *Spousal Waiver* form within the 12-month period before you go on pension.

How we invest—the latest in a continuing series

Merchant Banking: the focus is on above average returns

You may not have heard of the pension plan's Merchant Banking Group, but you're probably familiar with their work.

The deals they have put together are among the Teachers' pension plan's most conspicuous investments. These include:

- ATS (Automation Tooling Systems) Inc.
- Maple Leaf Foods
- Maple Leaf Gardens Ltd.
- Sun Media Corp.
- Vincor (makers of popular Ontario wines including Inniskillin and Jackson Triggs).

Although the \$1.7 billion Merchant Banking portfolio is one of the largest of its kind in Canada, it's our smallest asset class—representing about 3% of the plan's \$54.5 billion net assets.

HOW MERCHANT BANKING FITS INTO TEACHERS' INVESTMENT STRATEGY

We invest in equity markets in primarily three ways: Index fund stocks

(replicate the market—for example, if the stock is included in the TSE 300 index, we buy it); Actively managed stocks (select stocks we believe are undervalued); and Merchant Banking (seek business partners who are effective managers).

Our Merchant Banking team focuses on corporate, financial and strategic skills to invest in privately owned and publicly traded companies where we believe we can earn above average returns.

We also invest on a pooled basis with other merchant banks, brokerage houses, and managed funds in Canada, the U.S., Europe, Asia and Latin America.

FINDING EXTRA VALUE

Merchant Banking investments tend to be more illiquid (its assets are not easily sold) and come at a higher risk than publicly traded companies, but the rewards tend to be greater. Last year the Merchant Banking Group achieved stellar returns primarily due

to strong equity markets and a good underwriting process that allowed the fund to realize investments made a few years ago. Sustaining this kind of return over the long-term will be difficult. The benchmark for Merchant Banking is to achieve returns at least 2% higher than the TSE 300.



Lay

VENTURE CAPITAL

As part of Merchant Banking Group, we recently launched a \$100-million venture capital portfolio to be invested over three years in companies in the early stages of development. The venture capital portfolio will provide us with more exposure to companies in the high-growth technology sector—a sector known for creating jobs.

"As part of our learning experience, we are partnering with Canada's premier venture capital companies to leverage their resources and expertise," says Michael Lay, Vice-President, Merchant Banking. "We are also actively involved with Newbridge Networks Corp. in financing three affiliate companies in the telecommunications sector."

Merchant Banking At-a-glance

Investment: \$1.7 billion

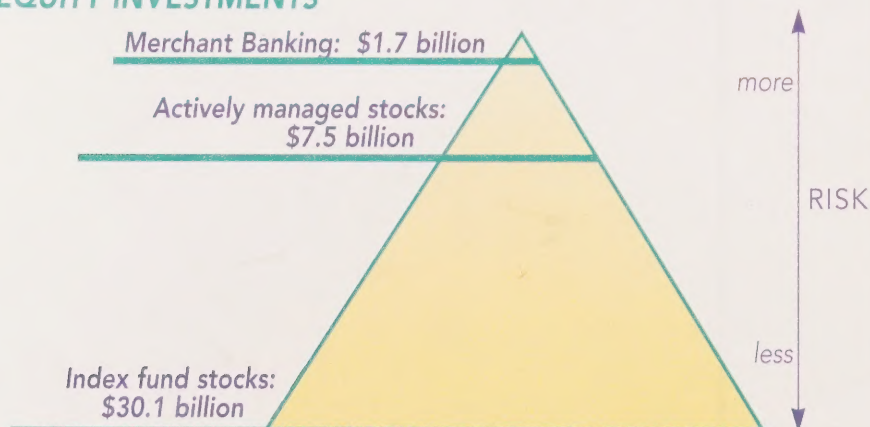
1997 Rate
of Return: 52.9% compared to a
benchmark of 17%

Four-year
average rate
of return: 31%

Contains: Privately owned and
publicly traded
companies, also invests
on a partnership basis
with merchant
banks and others

Managed: Internally by a staff of 10,
headed by Michael Lay,
Vice-President

EQUITY INVESTMENTS



Planning for retirement

Taking a leave? Here's how to maintain your pension

If you take time away from teaching, you can continue to accumulate credit in your pension by maintaining your contributions for the time you're away.

All leaves must be approved by your employer.

HOW A LEAVE AFFECTS YOUR PENSION

Your credit is the actual years or percentage of a year you have taught. The amount of your pension is determined by your credit and your average best-five years' salary. The more credit you accumulate, the greater the amount of your pension.

Buying credit maintains your investment in your pension and,

if the purchase gives you credit in a school year in which you previously had none, can allow you to retire earlier with an unreduced pension.



HOW MUCH IS A YEAR OF PENSION CREDIT WORTH?

A teacher with an average \$60,000 salary buying a one-year leave will collect about \$1,200 per year more in pension for life, indexed to inflation. If the cost to buy the one-year leave is \$5,300, the investment will pay for itself in about four years.

The cost is based on the contributions you would have made if you were still teaching.

DON'T MISS THE DEADLINE

It's important to remember that you have one year from your return to work to apply.




If you miss this deadline, the cost is assessed on an actuarial basis, which may make purchasing your leave much more expensive.

HOW TO BUY CREDIT

Buying credit can be as easy (and financially painless) as transferring money from your RRSP. There are two ways to buy credit:

Paying while on leave—apply before you go and arrange to continue making your contributions while you're away. By paying while on leave you save on interest charges.

Paying when you get back—complete the *Application to Buy Credit* form and return it to us no later than one year after your return to teaching. You can get a form by calling us. Once we've reviewed your application, we'll let you know the cost. You can buy all or part of the credit. To pay, send us a lump-sum payment or transfer the money from your RRSP. You have three years from the time you return to teaching, or five years in the case of pregnancy or parental leave.

	To qualify Before	After	Payment Options	If you pay after your return	How to Apply
 Employer Approved Leave	must work at least 1 year	return to work at least 70* days	while on leave or after your return	apply within 1 year; 3 years to pay	Call us; complete the <i>Application to Buy Credit</i> form
 Pregnancy and Parental Leave	must work at least 1 year	return to work at least 70* days	while on leave or after your return	apply within 1 year; 5 years to pay	Call us; complete the <i>Pregnancy and Parental Leaves form</i>
 X/Y Leave	must work at least 3 years	return to work at least 70† days	done automatically before and during your leave	not applicable	done automatically

* If you're five years from your earliest unreduced pension date (85 factor or 35 years of credit or age 65), you can take a leave of absence and purchase the credit for your time away without the 70-day return-to-work requirement. The leave must begin between Jan. 1, 1997 and Dec. 31, 2002 and you must pay for your purchase of credit during your leave.

† Revenue Canada requires that you return for a time at least equal to your leave.

Investments Making News

MLG buys Raptors, new arena

Teachers' pension plan continues to own 49% of Maple Leaf Gardens Limited (MLG Ltd.) which purchased the Raptors, Air Canada Centre and Union Station (to be finalized). The deal was announced in February.

Maple Leaf Gardens Limited At-a-glance

- MLG Ltd. plans to develop a sports, entertainment, retail, transportation and technology destination out of the Air Canada Centre and Union Station;
- The historical integrity of Union Station will be preserved. The Toronto Maple Leafs and the Toronto Raptors will share the

facility at the Air Canada Centre;

- "One facility makes good business sense because the teams can share overhead costs, facility marketing costs and revenues from concerts and other events," says Bob Bertram, Sr. Vice-President, Investments;

- The cost was not disclosed because MLG is a private company.



Bertram

LAID OFF? NOT SURE WHAT TO DO WITH YOUR PENSION?

The Toronto and Peel district school boards are just two of several who have sent lay-off notices to teachers.

We've received telephone calls from teachers concerned about what to do with their pension if they are unemployed this September.

OUR BEST PENSION ADVICE? BE PATIENT

If you become unemployed, you can leave your accumulated credit in the pension plan or consider several other pension-related options. However, these

options can only be exercised after you stop teaching.

"Unless you're sure you are changing careers," says Rosemarie McClean, Vice-President of Client Services, "your best option is to leave your accumulated pension credit in the plan."

If you stop teaching you can:

- *keep your membership* in the pension plan and continue accumulating pension credit when you resume teaching;
- *take a refund of your contributions* (if you have less than two years of service);
- *transfer* the value of your pension to a *locked-in RRSP*;
- OR
- *transfer* the value of your pension to *another pension plan*.



McClean

Did you KNOW?

The financial facts about the Teachers' pension plan

Net assets in 1997 increased by \$7.1 billion to \$54.5 billion

Rate of return: 15.6%

Four-year average investment return: 13.1%

Number of teachers who went on pension
in 1997: 4,600
in 1996: 5,008

Total number of pensioners: 57,000

For more details, read the enclosed Annual Report to Members.

Watch for your school's copy of the video of the annual meeting held April 3, 1998.

Retirement Planning Workshops

PLAN NOW, BENEFIT LATER

Attend an OTF weekend workshop and you'll gain useful tips to help you prepare for retirement. A team of Pension Benefit Specialists will also be there to give you an overview of the pension plan and to answer your questions. For more information contact your federation or association.

Workshop Schedule

Sept. 18-19	Walkerton
Oct. 2-3	Lindsay
Oct. 16-17	Brockville
Nov. 13-14	Ottawa

REAL-LIFE RETIREMENT

The latest in a series
featuring retired teachers
who have found fulfilling ways
to enjoy their retirement.

Seven years ago teacher Ann Watson, now retired, and her husband Rev. David Watson took a tour in Cartagena, Columbia that would change their lives, and that of the tour guide. The guide, local school principal Rosario Rivas (centre) told the Watsons about her poorly-stocked classrooms and her dream to build a school in the slums of Cartagena. That dream came true in January, thanks in large part to the tireless work of Ann. In less than three years \$30,000 was raised to build the first phase of the Escuela Kew Beach. 🍌



Photo courtesy of Beach Metro Community News



MOVING?

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EXCHANGE

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